THE Freeman

IDEAS ON LIBERTY

DECEMBER 1957

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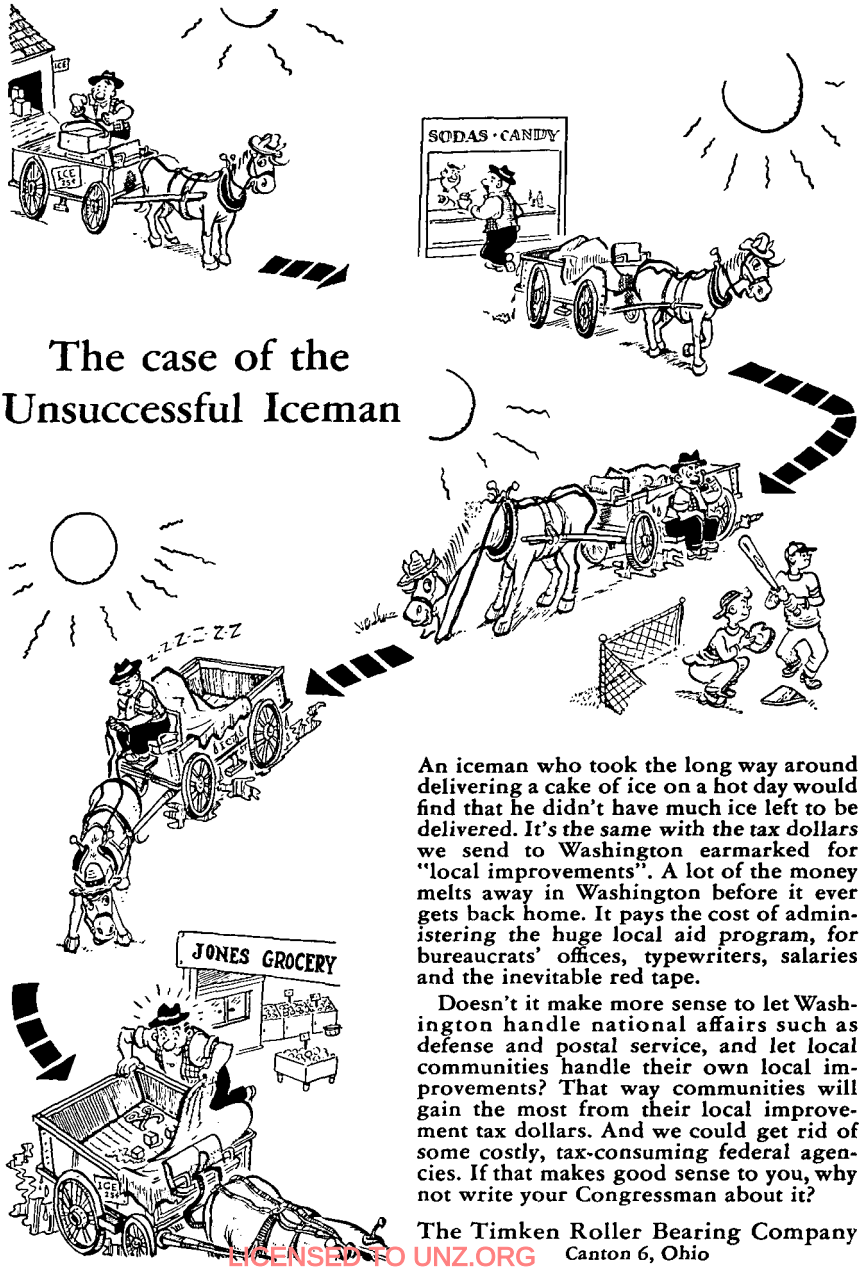

The case of the Unsuccessful Iceman

An iceman who took the long way around delivering a cake of ice on a hot day would find that he didn't have much ice left to be delivered. It's the same with the tax dollars we send to Washington earmarked for "local improvements". A lot of the money melts away in Washington before it ever gets back home. It pays the cost of administering the huge local aid program, for bureaucrats' offices, typewriters, salaries and the inevitable red tape.

Doesn't it make more sense to let Washington handle national affairs such as defense and postal service, and let local communities handle their own local improvements? That way communities will gain the most from their local improvement tax dollars. And we could get rid of some costly, tax-consuming federal agencies. If that makes good sense to you, why not write your Congressman about it?

The Timken Roller Bearing Company
Canton 6, Ohio

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A CONCEPT OF PRIVATE ENTERPRISE

by Ernest Swigert

President of National Association of Manufacturers

Free enterprise, simply defined, is nothing more nor less than economic freedom. It is a freedom within the American concept of liberty, and just as important to our way of life as political or religious freedom.

Economic Freedom means the right to compete on a fair basis in selling our products or services, the right to follow the pursuit of our choice in earning a livelihood, and the right to work completely unfettered by arbitrary restrictions.

When we support any measure which favors us over others, which grants us a "hand-out" at the expense of others, we have done two things that to some extent destroy the essence of individual liberty for every single American.

How? Those who are favored lose their freedom, because no person who is partly subsidized can be wholly free. Those who are discriminated against lose part of their freedom because, in practice, they are paying tribute for the benefit of those favored. And these simple facts are nonetheless true because those favored may be in the majority.

The above comments are condensed from an article by Ernest Swigert. A copy of the complete article may be obtained by writing to:

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Would you call this fair play?

Referee gives "Visitors" a boost—"Home" team has to score on its own. What kind of a game would *that* be?

Ridiculous—yet you and most people face that same kind of unfairness all the time with some of your taxes. These are the taxes you pay in your electric bills.

About 23 cents out of every dollar you pay for electricity goes for taxes. But a strange twist in federal law exempts several million families and businesses from paying all the taxes in their electric bills that you pay in yours. These are people whose electricity comes from federal government electric systems. You have to help make up the taxes these people don't pay.

Most Americans feel that everyone should pay his fair share of taxes. Don't *you* agree that this special tax favoritism should be made more widely known and given critical study?

America's Independent Electric Light and Power Companies*

**Company names on request through this magazine*

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The Christmas Message

EDMUND A. OPITZ

MANY TRAVELERS who have taken the trouble to get acquainted with the people of distant lands have returned to speak of the reservoir of good will possessed by America. We have drawn pretty heavily on this reservoir in recent years, but whatever is left represents the accumulation of good deeds, honorable dealings, and kindnesses by generations of Americans to men of other countries. There is something in the universe equivalent to this reservoir of good will, something out there which is credited to the account of humanity. On occasion men draw upon this account, and such is its nature that the more it is drawn upon the more it grows.

Chief among the occasions when men tap this source is Christmas. The amount of good will actually at work in the world receives a sudden augmentation at this time of year. Without defining it, we all know what the Christmas spirit is, and we like it. However heavily it may be overlaid with commercialism and perfunctoriness, it is solid at the core and a genuine thing. It is contagious, and one can hardly go through this season without catching it. Even if one decides merely to go through the motions demanded by convention, he finds that the motions curiously generate the spirit.

Such is the secret of the hold which ritual and ceremony have on mankind; they give "a local habitation and name" to what otherwise might remain vague and general. The Christmas spirit and the things we associate with it tap that reservoir of good will and attach it to the things of every day – and by a simple act we may build a bridge between two realms.

It is a commonplace observation that the things of every day have attachments which on occasion may lift them out of the mundane plane of existence onto a plane where they reveal something of

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eternal significance which ordinarily they conceal. The artist, for example, is always uncovering eternal things of beauty in temporal things which are plain or even ugly. Someone remarked that nobody ever noticed sunsets until Turner began to paint them; we look at a ballet dancer differently because of Degas; and after Corot, a clump of willows is more than just a clump of willows. A great artist opens windows for us from which we can look out onto a realm different from the world of every day. The poets, too, have called our attention to this aspect of our life, how ordinary things may possess extraordinary significance. "To see the world in a grain of sand, And a heaven in a wild flower; Hold infinity in the palm of your hand, And eternity in an hour."

Look Up, and Live

Our life is not a flat two-dimensional affair like the images on a movie screen; we live in another dimension also, the vertical. It is not only the artist and the poet who are aware of this, even the plain man is exposed to the strange peril of discovering it. Reading a poem, looking at a picture, listening to music, hearing a birdsong at dusk, looking into the face of a child who trusts us, performing a simple act of kindness, reveling in a mountain top view – who has not on some such occasion felt the scales drop from his eyes, enabling him to see with a new awareness, to recognize significances where he didn't perceive them before? "Make human life as trivial as you please; there remains the simple, positive fact among other facts – the eating and drinking, walking and talking – that we are taking part in cosmic affairs of a magnitude beyond all imagination to compass or language to express. All finite things have their roots in the infinite, and if you wish to understand life at all, you cannot tear it out of its context." (W. M. Dixon) This is something we all know perfectly well, and it is something that we all need to be reminded of continuously.

In the little book, *Mrs. Miniver* by Jan Struther, there is a sketch of the household on Christmas morning. After describing how the three children came down to explore their stockings and then were absorbed in their gifts, Mrs. Miniver, picturing the scene as it was in her memory, wrote: "The dark sky had already paled a little in its frame of cherry pink chintz. Eternity framed in domesticity. Never mind. One had to frame it in something to see it at all." In the simplest things of life are its deepest mysteries revealed; it is

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only a question of our seeing them. Eternity in domesticity. One had to frame it in something to see it at all. It is the commonplace which holds the significant — which is to say that nothing is quite commonplace because everything has attachments which relate it to an infinity of background. Life is shot through with eternity; earth is crammed with heaven.

Wordless Wonders

It is impossible to find the exact words to describe our relation to the wider universe even though men have been trying for thousands of years. But despite the inadequacy of words, we do have direct experiences of the reality — we are continually framing eternity in domesticity. The view of life which includes this is the essence of the religious outlook.

If we were true to our own experience, there would be no difficulty. But if we put an excessive valuation on words and exact formulation, we may come to deny the facts of our direct experience. You cannot pin the facts of the universe down like so many insects on a board. Life is more elusive than that, and in our wiser moments we know it. But that doesn't prevent a fad from catching hold of us which causes us to deny what we really know. We continually experience things which possess the quality of being timeless; for example, our contacts with the things of beauty, the things of goodness, the things of truth. Through the medium of such things we are in touch with things of permanent validity. But if we try to put our relation to these realities into a formula, we

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cannot do it. Because this relation is a living thing, dependent on experience, and cannot be embalmed in words, our age has tended to deny its reality.

Our age has tended to concentrate on the shifting and the impermanent aspect of things and thus to lose sight of those fixed points around which things change. It is as if in our time a high tide has come up to efface old landmarks. The blind denial that things have an aspect which is permanent and eternal, and the effort to make our way as best we can amidst things which are continuously changing and over ground which is constantly shifting are the besetting errors of our age. It is in this sense that our age is nonreligious, in its denial of the reality of fixed points.

In Walter Lippmann's earliest book, *Preface to Politics*, he criticized the churches because, he said, they continue to harp on the eternal verities and the changeless truths, when what our age needs to know is the meaning and direction of change. One need only point out that we can better discern the meaning and direction of change from the vantage point of several fixed guideposts which do not change. As if we could better cruise through dangerous waters when the channel buoys themselves are adrift!

A character in one of Ibsen's plays cries, "Without a fixed point outside of myself I cannot exist!" The task of religion is to delineate the fixed points which act as guideposts and provide clues to the successful negotiation of life.

Lack of Guideposts

Our age has lost touch with these guideposts and as a consequence it has developed certain symptoms. Chief among these symptoms is the personal insecurity that characterizes our time. The principal dangers that man has encountered and overcome during his curious and checkered career upon this planet are no longer with us. We don't live in fear of onslaughts from savage beasts; we don't live on the edge of starvation to perish when a crop fails; we aren't prey to the hazard of the weather but can protect ourselves against the perils of the storm. Nevertheless, it is the testimony of experts that no people have ever been so afflicted with nervous troubles as we are. We overcome Nature and Nature strikes back by giving us the jitters. The reasons do not lie outside ourselves; the reasons lie within and they refer to our willful blindness toward our experience with the things of permanent validity.

Dr. C. J. Jung, one of the most

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renowned of modern psychologists, has written: "Among all my patients over thirty-five, there has not been one whose problem in the last resort was not that of finding a religious outlook on life. It is safe to say that every one of them fell ill because he had lost it, and none of them has been really healed who did not regain it." Obviously, Jung does not mean the mere recitation of a creed or formal adherence to some religious body when he speaks of finding a religious outlook on life. By a religious outlook he means a perception which includes in its purview the permanent as well as the passing. If we consider our life as a two-dimensional affair like the action on a movie screen, continuously changing, possessing no depth, there is not enough solidity in it to construct the foundation upon which personal security is based.

Insecurity Breeds Aggression

If personal insecurity were but an individual peculiarity, the matter wouldn't be of so much consequence. But personal insecurity turns upon itself and comes out as aggression. In bitterness over his own frustration the individual tries to wreak revenge on society. Dictatorship is not only a political and economic problem; it is perhaps primarily a problem of the diseased mind and soul.

The individual is the unit of society; if the unit is weak, the structure cannot be strong. In our generation the disintegrative forces have us in their grip, and we cannot seem to hold our societies together. We witness the widespread defection of individuals from every social system, to a new allegiance pathetically inadequate when viewed objectively.

Time's reviewer of Rebecca West's book, *The Meaning of Treason,* says that when General Mola in 1936 gave us the phrase *the fifth column,* "the world pounced on the phrase with the eagerness of a man who has been groping for an important word. For what Mola had done was to indicate the dimension of treason in our time.... In the twentieth century, for the first time, men banded together by millions in movements like fascism and communism, dedicated to the purpose of betraying the institutions they lived under.... And yet, though the new ideas had been violently avowed, and the hallmark of their advocates was a fanaticism unknown since the first flush of Islam, wherever the fanatics were brought to trial they failed to defend their ideas." I see underlying this mass aggression against our institutions a basic personal insecurity acting as both cause

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and impetus, and back of the insecurity of our time, the lack of a genuine religious outlook.

The individual, stripped of his vertical relations, torn from his context, can find no foundation upon which he can feel secure. Nor can he discover a principle around which he can organize the life of his societies. Lack of a guiding principle prevents us from so organizing our society that a man could be ensured of a sufficiency and still have the leisure to develop the latent skills in hands and brain, to get to know his family, to dig in the earth, to go down to the sea in ships, or to loaf and invite his soul.

In one of Isak Dineson's *Gothic Tales* there is a little story of an Armenian organ grinder in the city of Paris. The organ grinder had a monkey which could perform a variety of tricks on a word from his master. The Armenian died, and no one knew the tongue in which he had given the monkey his commands. All attempts to make the monkey perform failed for want of a proper cue. The potentialities were still within him, but locked up. There is quite a parable in this little story. For man, too, is a creature of tremendous possibilities, but he is not always aware of the cues that will release those possibilities.

When People Are Happy Together

I am sure of one thing, that some of those possibilities are released at this season of the year. It is an ancient festival that we celebrate at Christmas time, rich in memory and association. It has long been the happiest festival of the Christian year, and "when people are happy together," says John Masefield, "they build up something eternal which weakens the power of all evil things." At no other time of the year are the eternal values so close to the ordinary and the commonplace. At no other time of the year are we as close to the basic realities upon which the kind of life we want for mankind is founded.

Those basic realities are much of the time ignored or shouldered aside in the practices of our common life. But at this season, not only do we glimpse them, not only do we experience them, but for a time we actually put them into operation. "The ideal life for man is but his normal life as it shall some day come to be lived," wrote George Sand. For a brief spell we live that ideal life – and then we slump back into our former attitudes. The lesson for us is plain. The glimpses we get at Christmas time must become part of our permanent vision. • • •

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JIM LEADBETTER'S DISCOVERY

ROBERT LEFEVRE

JIM LEADBETTER stepped out from under the metal canopy and sniffed the night air. Cold and damp. It had been raining gently, and the pavement glistened in the late fall twilight reflecting back myriads of crystals from the twinkling street lights. Just the night for a brisk walk home. His big black Cadillac was around in the factory's parking lot. And home was eight blocks away. Actually, eight and a half blocks, thought Jim. He must teach himself always to be accurate in his thinking and speaking.

Jim smiled inwardly, his face giving no indication of his thoughts. That was a good little talk he'd made today at that executive meeting. Good. Yes, it had been real good. But better not get smug, old boy, he admonished himself. Wipe that smug smile off your mind. It can be a neat smile, but not smug.

Jim turned up his collar and walked along the avenue. The remaining lights in the factory were going out. That would be where old Pete, the janitor, was cleaning up after the day's efforts and plunging the plant into blackness as he finished.

Jim was at peace with the world. Ever so briefly he permitted himself the luxury of thinking about his struggles during the previous twenty years and the success those efforts of his had finally achieved. It hadn't been easy. But, some way, tonight he wanted to walk home, to take his time by himself. Not to solve problems, this time, but simply to fill his lungs with the autumn humidity and expand his soul. That was it. Many times in the rush and press of business a person sort of forgot about himself. But the one thing that brought that good feeling of well-being was a sense of

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moral rightness. And if there was one thing that Jim had always insisted on during all his years, that one thing was integrity. The business had been built on integrity.

THAT THOUGHT brought back the memory again of his little talk with the various executives of the plant. "It's honesty, even in the little things, that counts!" Jim had said. "And one of the things all of us have to watch out for is that little trait of larceny deep within each of us.

"Take this plant as an example. We've got as fine a lot of employees as can be found within a given industry. Of that I'm certain. Yet, how many of our employees, how many of us as their immediate superiors, are completely above reproach on little things?

"Take stamps as an example. Did you know that last year this firm spent $46.33 to replace stamps which were stolen by our help? Well, we did. It wasn't that anybody set out deliberately to steal stamps. It was just that when Mary, the stenographer, or Bob, the warehouseman, dashed off a little personal letter to a friend or relative the stamps were available and they were taken. No one even thought for a minute that this was stealing. The stamps were handy and it was a matter of time and convenience.

"Then, too, what about stationery? Better than a ream of company letterheads was taken in this same fashion, not to mention envelopes. The cost couldn't have been large. Perhaps $3.50 would cover the whole thing. Yet, there had been that basic dishonesty within so many persons which permitted them to pick up and appropriate items which weren't theirs, simply because it was the easiest thing to do.

"There were other places, too, where this petty larceny appeared. There were occasional phone calls to out-of-town places. Actually, this was the most expensive item of the lot. The company had tried to keep tab on its phone bills, but there were always those long distance charges that simply couldn't be traced to business. The loss to the company had been $287.13 during a twelve-month period."

But Jim had wound up his peroration with this thought. "It isn't the amount of money. Quite frankly, the firm could absorb a loss of this kind without even feeling it. But there is a loss, just the same. A loss in trust and in confidence which takes its toll of the morale of the team. And in the final analysis, it's the team spirit that spells the difference between lasting success and just

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making our way. We should do all we can to instill in the minds of our help the most scrupulous honesty and integrity. We can afford to lose the money. But no one individual can afford the slightest hint of dishonesty. The commandments are pretty strict about this business," Jim remembered he had said. " 'Thou shalt not steal' means just that. It doesn't excuse small and unthinking acts of theft. 'Thou shalt not bear false witness.' That is another. You have to tell the truth all the time. Not just when it is profitable to you. A person, to be a person of real integrity, has to place honesty at the top of the scale."

Jim filled his lungs with the cool damp air. There were other things he could have said but didn't. For example, he might have mentioned that old story about George Washington and the cherry tree. Not that he believed the yarn. But it was still a good one. Let's see, it was the historical idol worshipper Weems who had thought that one up. Still, it served to illustrate a point. Young George might have saved himself a whipping had he told a little fib. And a person has a right to defend himself. Always. Always? George had no right to destroy property, his father's property. So, really, George had to tell the truth, even though it meant punishment.

Then there was the old story about Abe Lincoln walking three miles to return a single penny to an old widow whom he had overcharged in making change. Jim didn't believe that story, either. If the event had actually occurred, which was doubtful, it was probably traceable to the fact that old Abe was a canny boy and knew the value of advertising. It would be good for the future business of both himself and his store partner if the reputation for honesty got noised about. In a sense it was a cheap ad, thought Jim. And perhaps the motives, if it had occurred at all, were dishonest.

THAT CAUSED Jim to probe within himself fairly deeply. He'd always stuck with this idea of integrity because he'd felt it to be the only good policy on which to build a business. But maybe his motives had been dishonest. Perhaps he'd stuck to the idea simply because, like old Abe, he felt it was good for business.

But that argument didn't quite ring true within Jim's mind. No, that wasn't quite right. Truthfully, a man had to side with truth and with honesty, not because it paid off, but because he owed that much to himself. You had to tell the truth; you had to refrain from stealing even little things because if you didn't, you

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hurt yourself. Way down deep inside yourself you did something to your soul if you played around with dishonest things whether large or tiny. That was it. It wasn't a monetary thing at all. It was a spiritual thing. Dishonesty was like a slow poison. It did things to your insides. It rotted away your fibers, your moral fibers. A man couldn't be too honest. Even defensively. And Lord knows there were plenty of things a man had to defend himself from today . . . like the arbitrary highhandedness of the labor bosses. And the even worse though more insidious wiles of a government gone completely hog-wild.

Jim put these thoughts out of his mind. His porch light was on. In the house his wife, Grace, would be waiting for him. Dinner would be ready, or nearly so. He might have time to slip quietly into his den and read the evening paper.

AS HE FITTED his key into the lock, Grace opened the door. There was a sweet maternity about her face that was somewhat offset by a look in her eyes in which she demanded his full attention.

"You have company, Jim," she said. "I've delayed dinner so you can talk with him first. It's . . ." she produced a card, "it's Brian E. Sharpley," reading it, "from the Internal Revenue Department. Something about your income taxes. Don't be long."

Jim nodded, slid out of his coat, and hung up coat and hat in the hall closet. Grace motioned to the library and with a nod Jim turned and entered the big book-lined room.

A man in a gray tweed whom Jim had never seen before, still wearing his top coat, struggled up out of one of the deep leather chairs. "I'm Sharpley," he said. "There's just one small matter in connection with your 1957 tax form. Thought I'd drop out to see you personally rather than mailing it back to you. Only take a minute."

He delved into an inner coat pocket and came out with an envelope from which he extracted the familiar tax forms.

Jim felt his blood begin to boil. He always felt that way about the income tax. Hang the government, anyway. They sat around like vultures watching you work, watching you create wealth and meet payrolls and handle problems and fight your competition; and when you were all through for the year, they swooped down on you, as though you were a carcass, and tore off strips of your income like a carrion bird would tear off strips of still living flesh. They acted as though they had a right. They

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don't have any right to this, thought Jim viciously. They're thieves, taking plunder from me at the point of a gun. I have to pretend to be tractable and go along but I hate the whole phony business. It's bad enough that they rip so much out of the plant itself. But when they're all through with that, and they get that *in advance,* yes, in advance, the greedy hogs, then they come around to me personally and peek and pry just to make certain I haven't welshed on a single buck.

Jim forced the frown off his brow and with effort relaxed the grim lines which were beginning to etch his lips. He held out his hand. "Let me see."

Sharpley unfolded the form and indicated the bottom of the first page. "You didn't sign it," he said reproachfully. "And the department insists on the signature. You see, it's kind of an oath that you take that you've reported everything."

Jim read the hateful words: "I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me and to the best of my knowledge and belief is a true, correct, and complete return."

This gray tweed man is just a flunky, thought Jim. No point in hitting the ceiling with him. He's just a paid mercenary trying to do his job. But he couldn't remain silent.

"What's the matter? Doesn't the Bureau have any confidence in me? Don't they know that I conduct all my affairs with scrupulous honesty? Not that I think the government has this coming at all. They don't. They're just a bunch of . . . ." Jim checked himself. He managed a wan smile. "But I'm sure you aren't interested in my opinions on the income tax. Let me look it over carefully."

FROM LONG HABIT Jim never signed anything until he had looked it over carefully. Even his own documents which he had prepared personally. He hitched up a chair and sat at the broad library table, and Sharpley stood just behind him.

Yes, there was his salary staring up at him mutely. Reported right to the last dollar. And there was his income from stocks. It was right; he knew it was right. Down to the penny. And the computation had been accurate, he knew. Only himself and Grace now, since the children were on their own. Miserly small deductions, but no more than the law allowed. And his expenses. Correct, of course. Then what was that roaring sound like a thousand Niagaras pounding

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at his ears? Why was his temple beating with a sudden rush of blood? Why did his throat suddenly feel dry? He took a firm grip on himself and permitted his mind to dwell briefly on the events of the past year.

"It's honesty, even in the little things, that counts," he heard himself saying. What about those expenses? The Bureau would never discover that they had been padded. There was that trip he and Grace had made to the branch plant in San Francisco last year. It had been their vacation. But the cost of the trip had been included among the expense items. It had been a business expense, he told himself savagely. Hadn't he visited the plant and hadn't he had some business conferences with the branch manager? That made it business, didn't it? But of course the expenses had included Grace's plane fare as well as his own, and the hotel costs, and a few other items he now remembered guiltily.

Then there was that speech he had made at the Commonwealth Club. They had slipped him $500 for the talk and they all said it was good. But he remembered now that it wasn't included among his listing of income from all other sources. And there was the trip to the race track at Tanforan and the astounding good fortune he had had that day, as Grace and he together had managed to parlay a couple of small bets into something better than $1,000, just in the one afternoon.

Grace had been so excited. It had been lots of fun. But – he hadn't included that among his earned items. And there might be other things, too, if he cared to remember them. Other expenses not strictly business. Maybe other money he had picked up one way or another.

FOR JUST a moment there seemed to be an awful stillness in the room. Sharpley still stood behind him, and for one dreadful moment Jim was certain that the man had been conscious of his inner turmoil, had seen the flaws in the report, and was standing there like an avenging angel.

Then that passed. The government hadn't a prayer. They'd never know about any of these items. It's like the stamps, he thought, as he reached for his fountain pen. But he didn't take it out. He just remained staring down at the government Form 1040.

It isn't fair to me, to Grace, to the company, to anyone or anything for me to be placed in this position, he thought. What would George have done, his conscience mocked him? George? George Washington? What the dickens!

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George had no problem like this. George had destroyed someone else's property. Here was the government out to destroy or at least to confiscate some of my property. George had had it coming. I don't have it coming. Do I have to tell the truth to a thief? Why should I? The government has no right to my money and I have a right to defend myself and take advantage of every loophole.

Do you? sang his conscience. Weren't you the one who this very day told the people at the plant that it wasn't the amount of the theft that mattered? It wasn't the money. It was what dishonesty did to you inside. It rotted your guts.

Sure, sure, but that was different. The people in the plant were inconsiderate with the property belonging to the plant. They were taking something that belongs to the firm. They should be jacked up. But what about this? The money I've kept for myself without reporting and the added expenses I've listed as business expenses, were all my own money. It would be the same if the employees came to me and demanded that I furnish them stamps and long distance money.

No, it wouldn't, persisted his conscience. Remember, it isn't the money; it's the principle. Sure, you don't give a rip about the government. And sure, the government has no right to any of your money. But what about you? Are you just a hypocrite? Does the commandment say you are not supposed to lie except to the government, or to a thief? The commandment wasn't concerned about the money, either. It was concerned with *you*. It said for you not to lie. But that was because it was concerned with your immortality, not with your bank account.

BUT THE WHOLE thing is wrong, persisted Jim to himself. If I give more than I actually have to give to the government, I will be granting the government even more power to do all the bad things it is now doing. I owe it to myself, to my kids, to my wife, to my company, to keep the government as small as possible. Any dime I can get away with, I'm going to get away with.

Then maybe you'd better stop posing as a great moralist, he thought. You're a fine one to go spouting off about absolute strict honesty with yourself and everyone else if you can't even tell on yourself. Sure, the law is wrong. But your job is first and foremost with yourself. If you sign that paper, you will be taking an oath that will be false. The government will never know. Grace will never know. But—you'll know. And what will that do to you? Never mind

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the government. You have to live with yourself.

The problem dissolved in Jim's mind. I get it, he said to himself. The whole income tax thing is turning even honest men into crooks and liars. But just because everyone else does it, doesn't give me an excuse. I'll prove that I'm bigger than the government. Let them be small and mean and sneaky and groveling around after every penny. I don't have to stoop to their level. They can have the money. I'll never let them get me in this fix again.

WITH A TREMENDOUS effort Jim slowly stood. "I'm not going to sign that."

"No? Why not?" Sharpley was clearly nonplused.

"There may have been one or two items I have overlooked," began Jim. Not even the complete truth now, ragged his inner mind.

"All right," said Jim. "There's no 'may have been' about it. There are some specific things wrong with this report. I know they are wrong. I deliberately made them wrong. It'll take me the better part of tomorrow to check my records and get them correct. Then I'll mail it back to you with my check to cover the difference."

"My gosh, Mr. Leadbetter," said Sharpley, his eyes wide. "I'll have to report that. The Bureau may want to investigate! Gosh, I'm sorry!"

"Don't be sorry." To his amazement, Jim found that he was smiling broadly with a profound sense of relief filling his being. "You had nothing to do with it. And as for an investigation, tell the Bureau to come ahead and investigate."

He picked up Sharpley's hat where it had reposed on the table and handed it to him. "I've got nothing to hide. And that's really true, now."

In some confusion and embarrassment Sharpley got out of the house. As he crossed the street and got into his car, he thought: This is one lousy job. You know, that fellow Leadbetter is quite a man. Has a pretty fine house, too. I don't think I'll say anything about this to the higher-ups. They might get him into a lot of trouble, and I don't think he deserves it. That's strange, too, that he should confess to some irregularities in his form. None of us would ever have known. Can't figure out these free enterprisers at all. They'll fight you all night for a nickel and then turn around and hand you a century note. Crazy. But pretty fine, for all that. I wonder if I could get a job at the Leadbetter plant. It'd be a lot better than this cruddy government job. Those crooks I work for....

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But his thoughts trailed off as he shifted into gear and headed for home.

INSIDE, Jim sat down to a lovely hot dinner over which Grace presided with beaming countenance.

"What happened at the office today, Jim?" she asked.

"Well, Grace," he responded, "I think I made an important discovery."

"Did you? What was it?"

"It'll sound kind of corny. But I think that truth is even more important than money or in fooling your enemies."

And try as she would, Grace could never get more than that for an answer. • • •

Free To Discriminate

IF MAN IS TO CONTINUE his self-improvement, he must be free to exercise the powers of choice with which he has been endowed. When discrimination is not allowed according to one's wisdom and conscience, both discrimination and conscience will atrophy in the same manner as an unused muscle. Since man was given these faculties, it necessarily follows that he should use them and be personally responsible for the consequences of his choices. This means that he must be free to either enjoy or endure the consequences of each decision, because the lesson it teaches is the sole purpose of experience — the best of all teachers.

When one's fellow men interpose force and compulsions between him and the Source of his being — whether by the device of government or otherwise — it amounts to interrupting his self-improvement, in conflict with what seems to be the Divine design. Man must be left free to discriminate and to exercise his freedom of choice. This freedom is a virtue and not a vice. And freedom of choice sows the seeds of peace rather than of conflict.

F. A. HARPER, *Blessings of Discrimination*
A copy of this pamphlet is available on request from The Foundation for Economic Education, Irvington-on-Hudson, N. Y.

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How to

AND

FREDERIC BASTIAT (1801-1850)

THIS IS THE STORY of the owner of an iron mine in France [in 1847], and his reaction to competition from the owners of iron mines in Belgium. The Belgians were able to produce and ship iron into France at less cost than the French owners could produce it and sell it at home. This fact was reflected in the comparatively low price of Belgian iron in the French markets.

Naturally the French people bought most of their iron from Belgian producers instead of from their own domestic producers. This displeased the French mine-owners exceedingly, and the one we are here discussing decided to do something about it.

At first he considered the possibility of *personally* stopping this undesirable trade. He thought that he might take his gun and sally forth to the frontier and kill the nailmakers, locksmiths, and other users of iron who crossed the border to patronize his competitors. That would teach them a lesson!

But, unfortunately, there was the possibility that those buyers of Belgian iron might object to being killed, and kill him instead. Moreover, he knew that he would have to hire men to guard the entire frontier to make his plan effective. That would cost more money than he had. So our hero was about to resign himself to freedom when suddenly he had a brilliant idea. He remembered that at Paris there was a large factory engaged in producing laws.

He knew that everyone in France was forced to obey these laws, even the bad ones. So all he needed from the Parisian law-factory was just one small law: "Belgian iron is prohibited."

Then, instead of having to guard the frontier with his own few employees, the government would send 20,000 guards – chosen from the sons of the very locksmiths and engine makers who were carrying on this undesirable trade with the Belgians. Better still, the domestic mineowner himself

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wouldn't even have to pay the wages of these guards. That money would be taken from the French people in general, much of it from the selfsame buyers of Belgian iron. Our hero could then sell his iron at his own price.

The Producers of Laws

With this ingenious plan, our French mineowner proceeded to the law-factory in Paris. At some other time, I may tell you of his underhanded methods, but here I wish to speak only of what was divulged to the public.

He urged the authorities of the law-factory to consider the following argument: "Belgian iron sells in France for ten francs per hundred pounds. That forces me to sell my iron at the same low price. But I prefer to sell it for fifteen francs. Now if you will only produce a law that says, 'Belgian iron shall no longer enter France,' the following wonderful results will occur:

"For each hundred pounds of iron that I sell to the public, I shall receive fifteen francs instead of ten francs. As a result, I can expand my business and employ more workers. My workers and I will have more money to spend. This will help all the tradesmen in our community. The tradesmen, in turn, will then also buy more goods. That will mean larger orders to their suppliers all over France. Those suppliers, in turn, will also expand their businesses and hire more workers. Thus employment and prosperity will increase throughout France. All this will result from that extra five francs that your law will permit me to charge."

The producers of the laws in the law-factory were charmed indeed by the logic of our hero. They rushed to produce the requested law with this observation: "Why talk of hard work and economy? Why use an unpleasant way to increase the wealth of our nation when a single law can do the same thing?"

The Unseen Consequences

Now, in all fairness, we must do justice to the arguments of this mineowner who wanted a tariff to increase domestic employment. His reasoning was not *entirely false,* but rather *incomplete.* In asking the government for a privilege, he had correctly pointed out certain results *that can be seen.* But he completely ignored certain other effects *that cannot be seen.*

True enough, the five-franc piece thus directed by law into the cashbox of the domestic producer does serve to stimulate the economy along the lines he predicted. That can easily be seen. But what is not seen is this: That five-franc piece

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comes, not from the moon, but from the pocket of some French citizen who must now pay fifteen francs for the same thing that cost him only ten francs in a free economy. And while the protected industrialist may well use the five francs to encourage national industry, the French citizen himself would also have used it for the same purpose, if he had been left free to do so. He would have used his five francs to buy a book, or shoes, or some other article he wanted. In either case, national industry as a whole would be stimulated by the same amount.

Thus the new tariff law has resulted in this: The protected industry now makes a high profit to which it is not justly entitled. The average French citizen has been duped out of five francs by his government, and must therefore do without the article or service he would have bought with it. One segment of the economy has profited at the expense of many others. True enough, because of the artificial price increase, new jobs have been created in the protected industry. But what is not seen is the fact that the extra money now spent for iron must necessarily result in reduced spending for other products and services, and thus fewer jobs in those industries. And probably worst of all, the people have been encouraged to think that robbery is moral if it is legal. • • •

Translated and condensed by Dean Russell *from Selected Works of Frederic Bastiat.* Paris: Guillaumin, 1863. Volume 2, pp. 363-368.

Interfering with Production

IF WE PROTECT INDUSTRIES where our productivity does not much exceed foreign productivity, what we do, in essence, is to prevent the movement of manpower and capital out of uses where they add less to our economic well-being into the uses where they would add more. What we really do in protecting any industry is to shield it against the competition of our more productive industries in obtaining labor and capital. To say that we are protecting it against the competition of the foreign branch of the industry fails to recognize that the proper objective of our economic policy is to allocate resources to their most productive uses.

YALE BROZEN, *Competition from Cheap Foreign Labor*

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FRANK CHODOROV

FOREIGN AID THAT REALLY

WHATEVER IS CLAIMED for our foreign aid policy, popular support for it rests on the assumption that the money so distributed helps to improve economic conditions in what are called underdeveloped countries. The policy rides on this humanitarian purpose. Sometimes the argument is garnished with an appeal to self-interest: since our economy is tied in with the economy of other peoples, we cannot help benefiting from a world-wide improvement in living standards. More often the Christian doctrine that it is more blessed to give than to receive is tacitly invoked.

Lately, the political advantage of giving away our substance has been stressed; for example, when the President, pleading with an economy-minded Congress bent on cutting appropriations for foreign aid, predicted dire results from such penny-pinching. His argument, in a nutshell, was that in view of the strained international relations, we cannot afford to alienate friends and possible allies. We can dismiss this argument offhand simply because it is conjecture and cannot be proven one way or another until the anticipated war actually arrives; only then will we know whether our investment in the ally-buying business has paid off. If it is true, as John Jay said, that "nations in general will go to war whenever there is a prospect of getting anything by it," then we can predict that our allies, if any, will be those nations which expect to profit by joining our side, not necessarily those upon whom we have lavished gifts. Gain, not gratitude, will determine the alignment of nations.

However, there is an element of soundness in the economic argument for foreign aid, that our economy is affected by the economy of foreign nations; we must have good customers if we are to keep our industrial machinery going at full-blast. A good customer is, of course, one able to pay his bills; he must have something we want, to exchange for what we send him. The professional foreign-aidists maintain

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that if we send these underdeveloped countries – or, rather, their governments – some of our capital, they will put it to good use in building up their productive machinery and thus will become good customers. When it is pointed out that, as in the case of India, our grants to these governments have not improved the economies of their countries, that the people seem to remain as poor as ever, the stock answer is that it takes a long time and a lot of capital to build up a national economy. Common sense asks, "How long is a long time, and how much is needed?" There is no answer.

The Great Humanitarian

Now, along comes the evidence of another kind of "foreign aid" – one that costs the American taxpayer nothing, and that shows almost immediate improvement in the economies of those countries inviting it. It is not foreign aid at all; it is private investment from which a profit is expected. The capitalists who go in for this sort of thing haven't a humanitarian phrase in their prospectuses and probably do not have a humanitarian bone in their bodies; yet, if the humanitarianism of foreign aid is the improvement of the economic conditions of underdeveloped countries, then the American investor in foreign countries must be accounted the great humanitarian; he has done more for these countries than have all the grants made by our government to their governments.

This should not be surprising. In our own country, whenever a village, town, or state feels that it is underdeveloped, that it is possessed of unexploited economic potential, its management invites capital to look over the profit possibilities in its area. As a side issue, but related to his profit motive, the capitalist may consider the better living conditions for his employees, or the educational facilities the place provides, or the ways by which he can make his venture acceptable to the mores of the community. But, what must be uppermost in his mind are the conditions conducive to a profit on his investment: the available labor supply, transportation facilities, nearness to market, and so on. These are the things the local chamber of commerce stresses. The home town folks are, like the capitalist, thinking of profit. The merchants, hotel people, moving picture operators, and professionals all have in mind the improvement in business which must follow from the payroll of the prospective new plant.

It is out of this mutualized profit motive that has come the great improvement in the Ameri-

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can economy, and that is how the American industrial and commercial machine has expanded to all parts of the country. It has worked here; why cannot the principle be applied to the underdeveloped countries of the world?

It can, and it has been. Ever since there has been anything in the way of capital accumulations, the tendency among owners has been to look for opportunities for investment; and since capital flows naturally to where the returns are greatest, the direction has been toward places where there is the greatest need for capital – including underdeveloped areas. For that reason, since World War II, or since the burgeoning of our foreign aid policy, much private capital has left the United States for foreign parts, much more than the public realizes. The results are only beginning to be publicized; they speak loudly for the humanitarianism of foreign capital investment.

Private Investment Abroad

In 1946, a year after World War II, nearly a billion American dollars went looking for foreign opportunities. The flow was rather hesitant, for the governments of the devastated countries were leaning most perceptibly to nationalization of industry as the cure-all for their economic ills; the private investor had to consider the chances of having his capital confiscated. By 1956 this urgency had somewhat abated, and during that year some five billion American dollars went looking for jobs abroad. The figure is taken from a report issued by the U.S. Department of Commerce, dated August, 1957. The net figure reported is only $3.6 billion, which is about twice the amount of our foreign aid. But, it is not the whole story of foreign investment; it represents merely the amount of direct investment in capital equipment, plus reinvestment of earnings. It does not include the amount written off for one reason or another, like replacement costs, depletion allowances, or exploration and development costs from which no profits were realizable. Nor does it include over three quarters of a billion in portfolio investments. The over-all figure is about $5 billion.

The book value of American foreign investments at the end of 1956 is $22 billion. Book value is a rock bottom figure, far below market value; nor does it include investment losses consequent upon a risky business. Hence, in making comparison with the $55 billion of foreign aid since the war – most of which must be written off as sheer waste – private capital investment shows up quite

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favorably. But, it is not in the amount of money sent abroad that comparison should be made; it is in the comparative improvement of the economies of the nations as between foreign aid grants and private investments. That is the standard of measurement which foreign-aidists themselves have set up for the evaluation of their program. Let us look at what a few entrepreneurs have done along these lines.

Frontiersman

A modern American frontiersman by the name of Clarence E. Johnson, reports *Newsweek* (September 30), picked for his storybook venture some 600,000 acres of jungle in Paraguay. He dreamed of hacking his way through this wild, uninhabited land and putting it to productive use, the hilly parts in coffee, the flat areas in wheat, cotton, or whatever else was growable. Four years ago he organized the American Economic Development Company, got the blessing of the local government, interested both Wall Street and prospective settlers in his scheme. He set men and machetes to work on the jungle, brought in modern machinery, built roads, sold acreage to individualists like himself from the United States, Europe, China, Japan, South America, who in turn helped him to build an economy where four years ago there was none. "In an area where people never tasted wheat bread," wheat flour appeared. Towns, with homes, theatres, post offices, churches, and all the appurtenances of an integrated economy, sprang up out of the erstwhile jungle. A city is now in prospect.

All this may have crowned Johnson with a halo, but that was not what he was looking for when he started. Undoubtedly, the spirit of adventure was in him, but the primary motive power was the prospect of profit. Certainly the investors who helped him carry out his project were attracted by an expected return, a good return, and those who invested both their labor and their capital expected both wages and interest from their investment, in addition to whatever intangibles they hoped for. Meanwhile, the Paraguayans are better off for this increase of productive activity made possible by private capital investment.

Oil Company

A less romantic but more far-reaching example is that of the Creole Petroleum Company of Venezuela, a subsidiary of the Standard Oil Company of New Jersey.*

*The Case Study of the Creole Petrolum Corporation in Venezuela, published by the National Planning Board, Washington, D. C.

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Before further examining this amazing story of economy-building, paralleled in some degree by similar ventures in other underdeveloped countries, we might consider the charge made by professional foreign-aidists that private investment in the extractive industries leaves nothing to the host countries but a "hole in the ground." That is true, but only when drilling (or mining) results in "dry" holes, which can happen in Texas as well as in Venezuela; also, one can argue that in the distant future Venezuelan wells may run dry, even as did the gold on our West Coast – and the forty-niners left nothing in their wake but the State of California. It is an economic truism that production in one form stimulates production in other forms, provided the market is allowed to operate; and if the locale has any other natural advantages, the economy which originally rested on a special advantage can continue on its own momentum long after that special advantage is gone. In our own country we have seen how mining towns often turn into agricultural centers, commercial beehives, or manufacturing communities.

Native Help Is Best

What is Creole doing, what has it done, toward building up the economy of the country that was notoriously poor before it got there? To begin with, it employs some 14,000 workers. About 90 per cent of this force are natives, not because Creole is partial to natives but because it is more economical to employ people on the spot than to import them from abroad. But, the natives it found when operations started did not know the difference between a shovel and a drill, besides being deficient in other knowledge necessary to the oil business; and Creole could hardly put them to productive use until this deficiency was overcome. That called for the establishment of schools and training programs, which in turn called for the employment of teachers. When it came to filling jobs requiring scientific and executive knowledge, the schooling program had to be extended to the university level, so that Creole found it profitable to contribute toward the building up of the entire educational plant of Venezuela; scholarships in American universities were provided for those chosen to further their education in engineering, chemistry, and what not. That some of these students might become teachers of natives who would never work for Creole, or might turn to spreading knowledge completely unrelated to the oil business, was

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a chance Creole had to take. At any rate, since the economy of a country is directly related to the knowledge of the people, whatever Creole did to improve that knowledge – in its own interests, to be sure – could not help improving Venezuela's economy.

Transportation Facilities

Oil is where you find it. Very often it is found in quite inaccessible places. In that case the oil capitalist has to go into operations in which he has no interest but which are necessary to his main purpose. Creole had to build roads, dredge a canal, lay pipe lines, construct a harbor, and do other things that would facilitate the bringing of their saleable product to the sea. The workers who did all this work not only earned a living at it but also acquired knowledge and skills that could be put to good use in other lines, such as building skyscrapers in Caracas, highways to the interior, and homes for themselves. Venezuela now has much more than a "hole in the ground."

Creole workers had to live in houses where there were none, so Creole went into the real estate business; it built communities in the wilderness. Incidentally, the company is now trying to get out of this ancillary business, offering to sell the houses to their occupants or raising their wages so that they can become independent paying tenants; it has been hard put to teach these employees the disadvantages of being wards, the

The case of the Creole Petroleum Corporation of Venezuela illustrates vividly how private investment can build up the economy of a country. Some 90 per cent of its employees are Creole-trained Venezuelans, like these geologists studying microorganisms in drilling-mud samples.

Creole Petroleum Corporatio

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virtues of self-reliance. Healthy workers make better workers (the profit motive), so Creole had to import doctors, build hospitals, teach sanitation. It is now trying to divest itself of these collateral enterprises by turning them over to the Venezuelan government (a strange form of self-reliance!)

It should be mentioned that Creole contributes to the government nearly a quarter of a billion dollars a year – about half the taxes paid by the entire oil industry – a good deal of which goes to the building up of that "social capital" the sociologists like to talk about: that is, schools, roads, hospitals, sanitation, and various socialistic enterprises that bureaucrats the world over enjoy tinkering with.

The list of activities Creole was forced into by the necessities of its business pretty nearly covers the gamut of an economy. Since workers have to eat, agriculture had to be stimulated in areas where nothing had been grown. The company had to set up supply stations, which are now gradually being replaced by independent retail establishments. These outlets for merchandise induced others to go into the supply business, so that the Venezuela manufacturing industries which in 1938 employed only 175,000 employed 400,000 in 1948.

Oil started everything in the country, but now four American companies are manufacturing rubber products there; two others are producing soaps and detergents;

Creole's influence in education is felt throughout the country. Benefits extend to many not directly connected with the company. Judibana School, on Creole property, is among the enterprises started by the company and turned over to local management for all families of the community.

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iron ore deposits have been found and are being developed by other capitalists. The annual production of sugar has zoomed in twenty years from 17,000 to nearly 100,000 tons; rice, practically unknown a generation ago, is now produced at the rate of 40,000 tons a year. "Over-all, there are now 50 per cent more Venezuelans gainfully at work than there were twenty years ago, and what they gain from their labors makes it possible for each of them to live better than twice as well."

The Spiral of Progress

Summing up, Creole, seeking profit on its investment, helped to build an economy. This was incidental to its main purpose, but it was also inevitable, simply because activity in one field stimulates activity in others. Wages – any income earned – has an inbuilt propulsion to be spent on the satisfaction of desires, some of which the worker never dreamed of until the purchasing power was in his pocket. Other workers, sensing the presence of effective demand, set about producing and distributing the things the worker wants. One activity follows another, and the sum-total of productive activities is called an economy.

But, this process takes time. And the foreign-aidists are impatient; they cannot wait on the slow processes of nature. So, they invent "crash" programs, which are designed to build an economy from the top down, in a hurry. They assume, for instance, that a lot of electricity, by way of a monstrous hydroelectric plant, will suddenly create a mass demand for electric toasters among people who do not know how to stick a plug into an outlet and whose present desire is for bread, not toast.

Some wag described the "crash" program, or the planned economy, as an attempt to impose the twentieth century on the tenth. It can't be done. Putting aside the political reasons why foreign aid fails to improve the economy of underdeveloped countries, it is this effort to telescope time that makes foreign aid fatuous. On the other hand, the private capitalist, building on what he finds and not on what he would like to find, is equipped to do the job; his profit motive is a surer guide to economic development than the poetic blueprint of the reformer.

Retailer in Mexico

One more example of how private capital helps to build up the economy of an underdeveloped country is worthy of mention, simply because it is in a field furthest away from the extractive industries, the retail store business.

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"On February 27, 1947, Sears, Roebuck de Mexico, S.A., opened the doors of its first store. Six years later Sears was operating seven stores in Mexico. Its gross sales had passed $15 million a year, making Sears one of the largest retail merchants in Mexico and one of the dozen largest private corporations in the country – in gross business, in net profits, and in taxes paid."*

The inventory of the first store consisted mostly of imported merchandise. Pretty soon Sears found out that a lot of this merchandise did not mesh with the Mexican way of life – it offered a large assortment of tires, a staple in its United States stores, to a populace that had few cars – and that because of transportation costs, to say nothing of tariffs, was too costly for the mass trade it hoped to attract. The solution of that problem lay in domestic suppliers, if they could be found.

But, most of the manufacturing in Mexico was in the hands of handcraftsmen, operating on the small-sales-large-profits formula, and Sears was confronted with the task of educating these suppliers in the philosophy of mass production. Technicians had to be imported to furnish this education, some of the handcraftsmen were sent to the States for advanced study and observation; capital had to be supplied. It was a long, slow process, but it paid off eventually; today 91 per cent of the merchandise on Sears' shelves is produced in Mexico. Sears did all this in the interests of its stockholders, but a tangential result was the establishment of an industrial plant in a country where the custom cobbler still does a thriving business in work shoes.

Besides turning to domestic suppliers, Sears found that domestic employees were better fitted than imported workers for its purposes. But, how can you run a large retail shop with clerks who never saw a cash register? For three months before it opened its first store it ran classes in clerking and other rudimentary store jobs. Since then the educational program has been expanded so that now it includes courses in advertising, show card making, accountancy, management; out of 3,500 employees in the Mexican corporation only 18 are U.S. citizens.

Of course, this investment in education has paid off in company dividends, but the Mexican economy has not suffered from it. Besides, the investment is considerable, one that Sears is not anxious to lose, and therefore the corpora-

*A case study in the series, United States Business Performance Abroad, published by the National Planning Board, Washington, D. C.

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tion has taken steps to protect it; first by paying higher than the prevailing wage rate (made possible by the sales volume produced by an intelligent and satisfied sales force); by providing medical help for workers (a chiropodist makes standing on one's feet more comfortable); by enabling employees to acquire a vested interest in the business via a retirement fund. Thus, Sears has prospered, and its prosperity has been reflected in an improvement in the Mexican economy as a whole.

The Handicap

The proven way, then, of uplifting the economy of an underdeveloped country is to let private capital do it. That being so, what prevents private capital from undertaking the job on an even vaster scale than it is now doing? The answer, in a word, is: Politics.

There is hardly a country in the world where the notion that political power is capable of making more and better bread does not prevail; everywhere it is assumed or explicitly stated that socialism has merit. The basic tenet of socialism is that private property is sinful, that capitalism is a thieving institution. As a consequence, rulers everywhere find easy justification for their natural inclination to lay hands on private property; they reserve the privilege to confiscate property, either by nationalization or taxation, whenever it occurs to them that such confiscation is "in the public interest." It is this threat that deters private capital from going into a country where the socialistic mind is in control, for profits are hardly alluring when the prospect is that they will be appropriated along with the capital investment.

Most of the countries that need or say they need investment capital have regulations and laws hostile to private enterprise. Most of them have monetary regulations (inconvertibility of currencies) which make repatriation of either capital or profits difficult or impossible. Many levy discriminatory taxes on foreign-owned industries. Some require that domestic investors have voting control of corporations. Such regulations, plus the hostile attitude of officials, call for ingenuity in making adjustments or sagacity in devising circumventions. The net profit must be large enough to compensate for these annoyances, and it must be large enough to make up for losses incident to the political instability of these countries.

While the American government gives lip-service aplenty to foreign investment, its practices and attitudes are frequently at

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variance with its professions. In the matter of taxation, for instance, it demands its full share of the profits earned in underdeveloped countries by private American investors. It makes no allowance for the risks involved. It is quite willing to give the American taxpayer's money to these countries, but is not willing to encourage private investment by compensatory tax relief.

In its treaty agreements with underdeveloped countries the American government makes no effort to influence the attitude of their officials toward private enterprise. In fact, their hostility to private enterprise is encouraged by our official foreign aid program. In a study made for a Senate committee investigating our foreign aid program, this significant sentence appears: "Hopes of receiving large-scale grant aid tend to induce foreign governments to be less receptive to private capital, which does not and cannot work on a gift principle."* Which means that if there were no prospect of getting handouts from the American government these governments of underdeveloped countries would be inclined to remove some of their roadblocks to private investment.

It has been demonstrated that the American bureaucracy, which is socialistic by the nature of its business, if not ideologically, has shown no inclination to favor foreign ventures of American capital. Recently, the outgoing head of the International Cooperation Administration issued the following directive: "The United States is convinced that private ownership and operation of industrial and extractive enterprise contribute more effectively than public ownership to the general improvement of the economy of a country . . . therefore . . . I.C.A. will normally not be prepared to finance publicly owned . . . enterprises." Immediately the State Department repudiated this policy statement; it was not going to "offend" India, an admittedly socialistic country, which was at that very moment asking for another "loan" of $500 million; nor did it have any intention of interfering with the spread of socialism abroad.

Nevertheless, the record shows that those underdeveloped countries which have given American enterprise a chance to operate profitably within their borders have done well; while those which made such operations impossible, depending instead on our handouts, are suffering. • • •

*American Private Enterprise, Foreign Economic Development, and the Aid Programs. A study made by the American Enterprise Association, Washington, D. C.

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A CASE STUDY IN FOREIGN AID

ROGER A. FREEMAN

BOLIVIA rates as the South American country receiving economic aid from the United States. The program was started in 1953 to tide the country over a "temporary emergency." But for the past three years the United States has been contributing twice as much for public purposes in Bolivia as the Bolivian taxpayer. This has neither restored the economic balance nor assured stability in Bolivia. Plans to taper off U. S. aid are being shelved each year and appear dimmer now than ever.

Bolivian aid is listed in the U. S. Budget as "defense support" although it would require a great deal of imagination to visualize what bearing this country in the center of South America, without an army or a seacoast, has upon the defense of the United States.

Bolivia's trouble stems from a bloody revolution in 1952 which threw the country into a turmoil from which it will be long recovering. The new government nationalized the mines, expropriated the farm owners, sent a large segment of its educated class into exile, and drove private industry and commerce toward bankruptcy. Within a year Bolivia's people were starving and the government was in trouble up to its neck.*

It is quite likely that another revolution would have driven the government out no later than 1954 if U. S. aid had not come to its rescue.

Most of the U.S. aid was used not to strengthen local productive capacity but to boost imports and support consumption. This discouraged local production and enabled the country to live beyond its means. The government kept printing banknotes at a rapid

*This is more than a phrase. The first president this party had put into office was hanged from a lamppost in front of his palace in 1946.

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pace and the exchange rate of the peso boliviano dropped precipitously. A few years ago a dollar was worth 190 pesos; in the fall of 1956 it took 13, 700 pesos to buy one dollar in the free market.

In December 1956 an attempt was made to stabilize the currency at a rate of 7,500 to the dollar with the help of a $25 million fund from the United States and the International Monetary Fund. The present official rate which is set according to free market supply and demand, is 8,500, and there is no indication that it could be maintained without the stabilization fund and without continued U. S. aid. The greater part of U. S. aid still is used to supply over half the regular Bolivian budget. The large government enterprises, the mines and the petroleum monopoly, are operating deeply in the red and cover their deficits through central bank credits.

The government so far has shown no inclination to cut its expenditures to a level which Bolivian taxpayers are willing and able to support. Bolivia's tax load is low. At 5 to 7 per cent of gross national product it compares with a tax burden of 25 per cent of the gross national product in the United States.

Income tax collections dropped from an average of $3.5 million between 1948 and 1952 to $0.5 million by 1956. Property taxes shrank from $0.5 million to $124,000. Mine royalties used to be a mainstay of the Bolivian budget. But the government corporation which took over the mines in 1952 paid none. Royalties were re-established in December 1956 by supreme decree as part of the stabilization plan. But so far none have been paid.

The tin and tungsten mines are Bolivia's only source of foreign exchange besides U. S. aid. They

Philip Gendreau, N. Y.

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used to be profitable. But soon after nationalization, the mine payroll swelled from 26,000 to almost 40,000, and production declined. The mines showed vast deficits which the government covered by printing more banknotes.

A Mining Survey Mission, paid for by the International Cooperation Administration, and staffed by the New York engineering firm, Ford, Bacon & Davis, reported in December 1956 that there is no technical reason why the mines could not be operated economically. But the management would have to be turned over to technically qualified personnel and control wrested from the politicians and union leaders who are running the mines as their private preserve.

Much of the mine equipment is worn out or obsolete. The mines' foreign exchange earnings were used to import automobiles (rather than trucks which the country needs desperately) and other consumption goods including food. In the average of the past three years Bolivia imported $25 million annually in food and $7 million in machinery. Prudent economic policy would have reversed those figures.

Bolivia does not need to import food. A U. S. State Department Survey Mission concluded in 1941-42: "Bolivia could produce practically all agricultural products in unlimited quantities." These findings were subsequently confirmed by a United Nations Mission in 1950 and by the Joint Agricultural Service (Servicio Agricola Interamericano).

Serious Questions

Why did Bolivia face starvation in 1953?

Why does it still import a large part of its food and fiber?

One obvious reason is that most of Bolivia's good soils are in the humid lowlands while most of its people live in the dry and rocky High Andes. The U. S. Mission in 1941-42 recommended building a road from Santa Cruz to Cochabamba, to connect the tropics with the mountains. The road was built with a $44 million loan from the Import-Export Bank of Washington, completed two years ago. This year, the service on the loan was suspended. This is not unusual. Bolivia has been in default on its foreign debts since 1932 – the only country this side of the iron curtain which made no payments at all to its creditors over such a long period.

The so-called agricultural reform four years ago dealt food production a blow from which it seems unable to recover. Instead of channeling the landless Indians

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toward the noncultivated areas in the lowlands, they were given the freedom to take and divide the haciendas which had been supplying the cities with food. About half a million people took over land without much if any plan or procedure. Property rights remained uncertain, and in the first three years only 7,621 titles were granted. Most of the new owners grow food only for themselves. Cooperatives do little better.

President Paz Estenssoro complained in the summer of 1956 that cooperatives "have paid more attention to supplying their members than to production itself."

Fed by Uncle Sam

When the Bolivian farmers would not supply the cities, the United States stepped in the breach. In each of the past four fiscal years, we have provided an average of over $25 million in money, goods, and services. What has this accomplished? U. S. food was priced at fractions – 10 to 20 per cent of cost. At least one-third of it was immediately smuggled to neighboring countries to be sold at market prices. Much of the rest went into the Bolivian black markets. Some people grew rich on this traffic. Little reached consumers at official prices.

The International Cooperation Administration last year sent auditors to Bolivia to find out about the "end use" of U. S. aid goods. They found themselves up against a stone wall and had to be satisfied with setting up procedures to provide better control in the future.

While the Chilean and Peruvian ports of Antofagasta, Arica, and Mollendo were choked with ten thousands of tons of U. S. aid goods beyond the capacity of the railroads, and merchandise had to be stored in the open for many months, the International Cooperation Administration kept sending additional shiploads which only added to the confusion and provided better opportunities for pilferage and contraband. This was done right up to 1957.

The U. S. aid program discouraged local food production by underbidding Bolivian production costs. The government set maximum prices at which it would buy agricultural products so low that farmers reduced their output or smuggled livestock, corn, rice, and the like to Brazil, Argentina, or Peru where they brought higher returns. Meanwhile the United States was feeding Bolivia's cities.

More Freedom Needed

There has been some improvement. In December 1956 the prices of U. S. supplied food were raised to market levels, and price con-

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trols were abolished. That has had some beneficial effect in encouraging local production. But not enough. Livestock, corn, wheat, sugar, and other items are now brought in from the surrounding countries at prices below Bolivian production costs. A country which is desperately in need of dollars to pay for machines and other industrial goods should not be spending scarce foreign exchange on food it can grow at home.

Hundreds of thousands or millions of additional people could grow food and fiber for themselves, for the cities, and for export on Bolivia's soil. But, the rural Indians are streaming into the cities and into the mines where living conditions and wages are better.

The average mine worker now earns almost as much as a cabinet minister. That still is little by U. S. standards. But it is a great deal by Bolivian standards – more than twice what a teacher makes. It is only a fraction of the earnings of a miner in the U. S., but a U. S. miner's output is ten times that of a Bolivian.

Without U. S. aid, Bolivia's alternatives would have been to work the land and grow more food or starve. Our program "saved" the Bolivians from both. It also saved the government from the consequences of its policies.

All over the country one can see the terraces on the steep hillsides which tell a story of past cultivation. Those terraced lands and irrigation channels were producing food in Inca days and often until quite recently. At this time only small parts of the terraces are still being worked.

Petroleum Monopoly

Bolivia has rich oil lands. The fields were explored and production started in the 1920's by the Standard Oil Company of New Jersey. Their property was confiscated years ago without compensation. Petroleum is now being produced by a government monopoly corporation (YPFB). Output has increased in recent years. In fact one-fourth of it is being exported to Brazil and Argentina which built railroads from the border to the production centers (at their own expense). This year YPFB expects to sell $14 million worth in petroleum products locally, $5 million abroad.

Petroleum products are almost tax free. The YPFB budget includes an item of $130,000 for taxes, about 0.7 per cent of its gross volume. I recommended the imposition of adequate gasoline taxes to finance the building of roads which Bolivia needs desperately. The government finally boosted the gasoline tax from 0.4

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cents to 0.75 cents per gallon. Diesel and fuel oil still are left tax free.

YPFB has been pricing its products far below cost. The government covered the deficits with the printing press. In December 1956 gasoline was raised from 7 cents a gallon to 25 and 27 cents. This is almost twice what gasoline would cost in the United States if there were no taxes. But YPFB, which pays almost no taxes, is still operating in the red at the new price, despite low wages.

Unproductive Labor

The low productivity of labor is the main reason for the high costs of production in the mines, in petroleum, in agriculture, for the excessively large staffs of the ministries and the high cost of government.

At many jobs there are twice or three times as many people as are needed. To watch them "at work" is a frustrating experience to Americans.

Productivity in private industrial firms is no better. Companies were forced by the government to place additional people on their payroll and are not permitted to dismiss employees regardless of whether there is work for them, whether they are competent, whether they work, or whether they are caught stealing. There are always several strikes going on. This is small wonder — workers get paid while they are on strike.

Wages and incomes are low, but in terms of output they are higher than in the United States. Thus it is cheaper to import goods, agricultural or manufactured, than to produce them locally. The imports are paid for partly through high taxation in the United States while Bolivians are living in what may comparatively be called a tax paradise. Bolivia is being taught to depend increasingly on U.S. aid, and its incentives for helping itself are being reduced.

Should U.S. aid to Bolivia be abolished?

The program was adopted four years ago to assist in a temporary emergency. The United States never intended to pay a regular and continuing subsidy to Bolivia. The International Cooperation Administration asserted repeatedly at congressional hearings its intention to taper off and end the program. It is about time that this be done. • • •

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The most encouraging development in Argentina, second only to the removal of the Péron forces, is a thoughtful attention to the real meaning of freedom. The following message by ALBERTO BENEGAS LYNCH, *President of the Chamber of Commerce of Argentina — translated and condensed from a letter to the Minister of Commerce and Industry, September 20, 1957 — deserves serious consideration in the United States as well as in Argentina.*

IT SHOULD BE clearly established that a free economy does not exist in Argentina. The rough policy of intervention in economic matters, as practiced by the overthrown tyranny, left the nation without resources, poor, and ripe for socialism. Since the Liberating Revolution, with all its healthy effects on the morality of political administration, some steps have been taken to diminish government intervention in the economy. But intervention still exists on a large scale.

Let no one be deceived; we are living in an economy that is semi-socialized and very far from being free.

It is well-known that during the 12 years of the Péron regime, private property gave way to governmental control of such things as railways, telephones, gas, and foreign trade. These enterprises particularly, and the economy in general, were at the mercy of the will and caprice of government officials, with the well-known disastrous consequences.

Since September 1955, an atmosphere of decency and honesty has prevailed in the country in the management of public property. But, insofar as most economic-financial affairs are concerned, there has been relatively little correction of past abuses; we have not made much progress toward a free economy.

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Most of the state monopolies recommended by socialists are still in effect. The State continues to control prices of many goods and services. Subsidies, multiple exchange rates, and monopoly control of the banking system are still in effect. The situation is becoming worse as inflation continues; and this is the responsibility of the government that creates the money and credit. We know that general salary increases, out of proportion to production, come with each new boost in the money supply and further aggravate the inflationary situation. But this would not happen if the companies which grant such increases were held responsible for the consequences instead of being bailed out by monetary expansion.

Creating a False Impression

We repeat how important it is to avoid the mistake of believing that a free economy exists here. According to news reports, a high government official has urged businessmen to "look upon the interests of the nation as a whole and bear in mind that at the present time free economy is in action." Such a suggestion, that the country is at present enjoying a free economy, is wholly incorrect.

It would be unfair thus to endanger the good reputation of the free economy at this time when it is so notably absent from our Republic, yet so sorely needed to give the country the impelling force for its effective recovery.

Improvement of the general economic-financial situation in Argentina, in our opinion, depends on two things: (1) encouraging investment of private capital in all kinds of economic activities, particularly oil production and electric and hydroelectric energy, and (2) establishing free market prices. In other words, stop inflation, reduce public expenditures in proportion to the real resources, and take away all subsidies from all government enterprises and any other privileged group.

Furthermore, it is important to create in the country the proper atmosphere for lawful profits acquired by those who devote their talents and efforts to creative purposes. It is important to combat the communistic propaganda that profit is something obtained at the expense of the consumer or the worker. Profits are essential to the effective economic progress of the Republic. When profits are high, they assure future increase of production brought about by the double action of reinvestment and the attraction of new capital. Profits are most important to the formation of the capital needed for economic development.

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If the policy we have suggested is followed, the abundance of foreign private capital that would thus be attracted to Argentina would contribute to speedy economic recovery and, therefore, strengthen our position in world trade.

Finally we favor a free economy because we are convinced that this is the highest form of production and distribution of wealth, affording the highest level of living for all persons. It would be a great mistake to believe that by favoring a free economy, we would be defending the interests of one single class, that of the employer group. The free economy, fully extended, is beneficial to the general interests of society and not merely to the interests of one special class. Those who have the most to gain are the lower income groups; and they will not prosper until a firm and open direction is given to the country through full protection of private property and assurance of a free economy.

• • •

Up Through the Ranks

THERE is not of necessity any such thing as the free hired laborer being fixed to that condition for life. Many independent men everywhere in these States a few years back in their lives were hired laborers. The prudent, penniless beginner in the world labors for wages awhile, saves a surplus with which to buy tools or land for himself, then labors on his own account another while, and at length hires another new beginner to help him. This is the just and generous and prosperous system which opens the way to all, gives hope to all, and consequent energy and progress and improvement of condition to all. No men living are more worthy to be trusted than those who toil up from poverty; none less inclined to take or touch aught which they have not honestly earned. Let them beware of surrendering a political power which they already possess, and which if surrendered will surely be used to close the door of advancement against such as they and fix new disabilities and burdens upon them till all of liberty shall be lost.

ABRAHAM LINCOLN, Message to Congress, 1861

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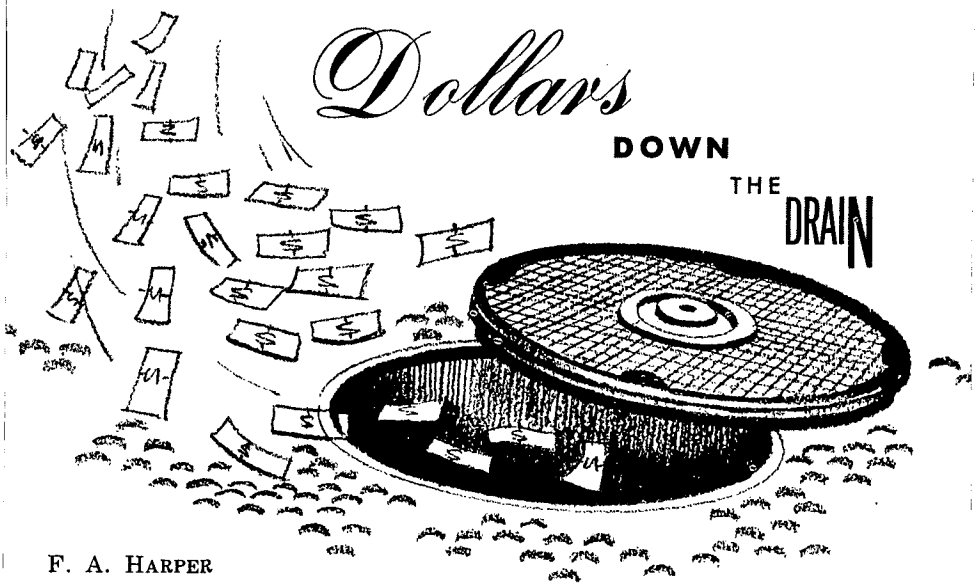
Dollars DOWN THE DRAIN



F. A. HARPER

THE STORY which follows could be told for practically any community in the United States, in type if not in degree and form. It could be your own community.

Westchester County, north of the City of New York, is said to be the wealthiest residential county in the United States. Not every resident there is a millionaire, of course. But the area, overall, is one outstandingly wealthy in the United States; fabulously wealthy for the world as a whole.

It has been said that everyone who works in the City of New York wants his bedroom to be as far from his place of work as he can afford. Far to the north in Westchester County lies a typical village community among those near the fringe of possible commutation to New York. It is a pleasant little community, full of good country air and airy residences filled with kindly and pleasant people.

But in this rarefied rural atmosphere a sewage disposal "crisis" has descended upon the good people who live there. The County Health Department has proclaimed that a serious pollution problem exists.

A disposal system to take care of the problem has been estimated to cost $3,400 per family. Though this is only one-tenth to one-sixth of the value of a common new residence in the area, and no more than the cost of a new car such as the residents frequently buy, the

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cost has been semiofficially declared to be unbearable – "excessive."

Aid as the Solution

Now what is to be done when an irresistible economic force meets a near-empty pocketbook? Either the person must adjust his appraisal of what are necessities in his life, releasing funds to pay the cost of this particular "necessity," or he must find ways of reducing its cost to fit his budget without foregoing other "necessities."

The first solution – doing without other things – is the more painful process of the two and is usually avoided or ignored if possible. The alternative, then, is either to find someone who will do the job more cheaply or do the work for oneself.

But the ingenious residents of this particular community, like their counterparts in untold others in the United States, have discovered yet another way to cut the costs: by obtaining federal aid. By taking the necessary steps to qualify, about one-third of the cost, or $1,133 per family, can be obtained from Uncle Sam. And then the remaining cost of providing this necessity, it is hoped, will be within the reach of these residents whose needs exceed their means.

The procedure for federal aid is simple. The gravy train is already loaded, ready, and waiting. All the villagers have to do is to ask in the proper way, and it shall be given. If half or more of the residents want to set up the district and appeal for alms – about $100,000 in this instance – Uncle Sam is ready, willing, and waiting. Congress this year has already appropriated $45 million for aid in such projects, and a bounteous $2¾ million of it has been allocated to New York.

Source of Aid

Since Heaven does not send showers of blessings in just this form, any thoughtful and curious citizen may ask: From whence cometh all these federal alms? He knows that Uncle Sam's pockets are notoriously full of holes and empty.

These alms come from taxes, of course, which may be thought of as just an indirect way by which people pay their bills. There is no source of such governmental funds other than taxes. These are collected from the same villagers and their counterparts throughout the land. In the main, these taxes have to come from persons far less able to pay for such "necessities" than are these particular villagers. They come in part from some poor Negro widow in Little Rock, Ar-

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kansas; from some poor orphan in Wyoming; from some young couple in Woodbine, Iowa, who are trying to save enough money to buy a small house of their own. People of such circumstances will find in their tax bills an amount sufficient to allow Uncle Sam to be generous and send the $100,000 to these folk.

The Service Charge

But it's even worse than that, because while the tax money is traveling from all these places to Washington and back again, much of it disappears as service fees under one name or another. Not too high a proportion ever gets back to these communities at all.

To call this process "aid" is a careless use of language, indeed. When a banker takes a far smaller fee for handling our money and settling payments from one person to another, some are tempted to use harsh words about the banker and his fees. But when the government handles transfers of our money at a much higher fee, we accept it in common parlance as "aid," even commending the government officials for their "goodwill and charity."

It may seem that this one little project is a trivial matter, costing the average family in the United States only one-fifth of a cent. But precisely therein lies the danger. Each little piece added to our tax bill seems too small to be worthy of concern. And though it is said to be done democratically, about the only people who concern themselves with it are the direct beneficiaries who vote on whether or not they will, in effect, pick the pockets of every citizen of the United States. If over half of the pickers approve, the picking becomes legalized and the policeman is assigned to protect the picker rather than the victim.

Drops Make a River

Yet we go on and on with projects of this sort. Just as drops of water make a Niagara, it is these little bits of tax added to other little bits which together comprise the terrific tax burden we are now being forced to bear. In the current year, for instance, these federal grants to the states alone will amount to about $80 per family – an increase from only about $30 per family ten years ago. And for next year the Administration has programs of this sort which will cost the average family perhaps $110. Every family, in other words, will have to pay the seemingly trivial separate costs of the equivalent of 55,000 such projects all over the United States – must, in other words, pay for about 200 of them out of his income every working day.

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The Losing Gamble

Some persons understand the process well, however. Not everyone is fooled into thinking that he can win in this gamble at the roulette wheel of federal "aid." In one other Westchester community the question recently arose as to whether the school board should endorse an increase in government "aid" for the schools. The issue was acute in this community because, like so many others, it had foolishly overextended the citizens' pocketbooks in building some fancy new schools. The head of a well-known women's organization asserted that it was merely a question of whether "we in this community" will get more in state aid than we have to pay in taxes. In the gamble of government aid, of course, one community cannot possibly win except as another loses, even aside from the "housetake." The lady did not bother to consider the moral issue involved in forcing minority objectors to play a losing game which the majority decides they shall play – a losing gamble called government "aid."

Our moral code in this respect is not very consistent. When Jesse James robbed a bank for the necessities he couldn't afford, we took quite a different view of the matter. Even though a Jesse, the aggressor, votes a full 100 per cent in favor of the project, the rest of the citizens deny him these acquisitive rights; they do not even allow him one single vote in the matter.

Shouldn't we use the same concept in connection with federal aid? Why not in like manner put all such proposals, like aiding this community in their sewage disposal project, to the vote of all the citizens who will have to pay the bill? Why not disfranchise the pocket pickers, so far as voting on this matter is concerned? Why give the takers of the money all the seats in the court of justice?

Freedom Lost

Highly important in this process is the loss of freedom involved. The citizens of these communities who by majority vote have thrown everyone's pocketbook into the gamble of federal aid may not realize the loss of freedom till it is too late. If you go into a gambling casino with a few dollars and later depart with empty pockets, you still have your shirt and your trousers *and your freedom.* You are free to decide that you will never be a player in this losing game again. But how about federal aid? The law of the land, as laid down by the Supreme Court, has decreed that you shall lose an important part of your freedom as well. Even the minority

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who objected but are forced to play the game lose their freedom along with the others. For the Court has said:

> It is hardly lack of due process for the Government to regulate that which it subsidizes.*

This means that if federal aid is given for any such concern of your life, the government is thereby empowered to control that part of your life.

In the light of all this, one wonders if a sewage disposal problem is really the evil most to be feared. Perhaps we should fear most the disposal of our money and our freedom through federal aid. For if this process of federal aid continues to progress as rapidly as it has in recent years, the time is fast approaching when we shall all be largely enslaved to the government. And slaves down through history have always suffered troubles which make our worst sewage problems trivial by comparison.

Would you, for instance, knowingly sell a large degree of your freedom for a few dollars of "aid"? Suppose the offer were made clearly and in the open in terms of its reality; would you buy it? Would you buy the loss of freedom knowing that even on a purely cost basis the house-take is heavy and you are sure to lose? If we wouldn't buy enslavement as a total package, we shouldn't buy it in enticing little pieces under subterfuge. • • •

*Wickard *v* Filburn, 317. U. S. 111, October term, 1942.

Private Property Preferred

PROPERTY should be in a certain sense common, but, as a general rule, private; for, when every one has a distinct interest, men will not complain of one another, and they will make more progress, because every one will be attending to his own business. . . . And further, there is the greatest pleasure in doing a kindness or service to friends or guests or companions, which can only be rendered when a man has private property. . . . No one, when men have all things in common, will any longer set an example of liberality or do any liberal action; for liberality consists in the use which is made of property.

ARISTOTLE, *Politics*

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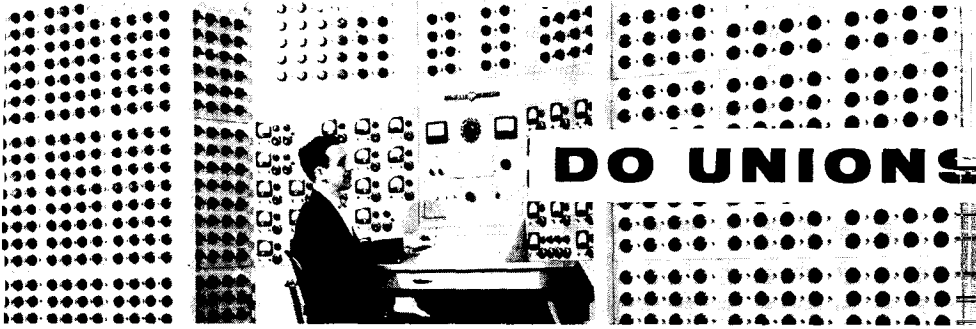

A. Devaney, In

THE POPULAR ASSUMPTION that labor unions can raise the wages of the working population has been exploded repeatedly. F. A. Harper, in a FREEMAN series on "Why Wages Rise," expertly demonstrated that unions merely impede productivity and therefore generally retard real wages. This is not to deny that unions may temporarily raise the wages of a restricted number of members through strikes and other coercive practices. But this inevitably leads to unemployment in the unionized industries. Consequently, labor tends to shift to nonunionized industries and thus depresses their wages. We can presently observe these effects in the form of unemployment in the rigidly unionized building industries and the absorption of additional workers in many white-collar occupations.

There are other popular notions on the beneficial effects of labor unions. Many people even outside the union camp give credit to the union bosses for the American trend toward more and more industrial "automation." They argue as follows: the unions demand higher wages. The employers, squeezed by higher labor costs, seek refuge in automation to reduce the costs. Automation then brings about higher productivity which in turn encourages the unions to demand still higher wages. In other words, the union bosses are in the driver's seat in the industrial surge toward unforeseeable productivity.

Oh, lucky land of labor unions! The economist is reminded of the fable of Aladdin's lamp whose owner merely rubs the lamp to evoke the friendly genie. Courageous union bosses clamor for more and more, and frightened businessmen realize the dream of higher and higher standards of living!

What is "automation"? It is an ill-chosen name for production with more capital equipment. It carries the connotation of an automatism of production that creates mass unemployment. The age-old question of whether machines

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CAUSE AUTOMATION?

HANS F. SENNHOLZ

create unemployment needs no further discussion at this place. It is continuously revived by union leaders in desperate need of an explanation for the chronic unemployment caused by their own activity.

Production with more capital equipment necessitates industrial adjustment. In a capitalist economy an adjustment to changed consumers' demand, improved production techniques, and changing capital markets is continuously taking place.

"Automation" Since the Beginning of Capitalism

It is no new phenomenon. When the water-piping system was first invented and became accessible to the population through capitalist mass production, adjustments had to be made. In the big cities of Europe, thousands of water carriers, who sold their water by the bucket, were set free by this new "automation." But it also gave employment to thousands of workers in factories producing the pipes and brought forth a new craft, plumbing, which gave employment through selling and servicing the piping systems. The people who were affected by this new automation did not complain, for it was progress.

There were no labor unions, or at least their power was insignificant. And yet, there was "automation." Why? The investment capital that was necessary for production and installation became available at a price that was lower than the cost of delivery by the water carriers. At first, when the price of the piping systems was very high and the required capital outlay very great, only wealthy families could afford the improvements. When the price declined and hence also the capital outlay, the savings in cost by the piping system increased, which consequently led to more installation in the homes of all strata of population.

Capital Must First Be Accumulated

The fundamental prerequisite for production with more capital equipment is the existence of *new capital.* If no new capital is accumulated either through entrepreneurial profits or savings, no improvement through additional capital outlay is feasible. If, some hundred years ago, no new capital had been available for the water-piping system, it simply could not have been introduced.

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This prerequisite of new capital accumulation for production improvements refutes the notion that labor unions stimulate capital outlays. Unions are the implacable foes of profits and savings. How can they claim credit for the beneficial effects of capital accumulation?

New capital must be available at a price that constitutes a saving in cost. In other words, if a businessman is to replace an old production method with a new method that is physically more productive, it must be profitable for him to do so. The cost of the larger capital required for the innovation plus other production costs must be smaller than the combined costs of the old process.

Interest Rate Gives Signal for Conversion

The cost of capital is determined by the market rate of interest which in turn is determined by the state of the capital market. In a capitalist economy without confiscatory taxation and controls, capital accumulation takes place continuously. The interest rate declines and gives the businessman his signal for conversion from old production methods to new methods requiring larger capital outlays.

I should like to illustrate this. Let us take a marginal enterprise neither earning profits nor suffering losses. Let us assume that the interest rate it would have to pay for investment capital stands at 6 per cent. It clings to an old physically inferior production method because it requires less capital and lower interest charges on the capital invested than the new method. Its costs per unit of production are lower than they would be with the new method.

Now the rate of interest declines because of additional capital supply. Let us assume that at 4 per cent it becomes profitable to borrow the capital required for the retooling. At this point the unit costs of the new method, which is physically superior but requires larger capital investments, falls below the unit costs of the old method due to the decline in interest charges. The alert businessman at once embarks upon the conversion.

Producing at lower unit costs, this businessman now reaps a profit. He expands and increases production. The price of the product declines, which in turn leads to losses by the less capable businessman who clings to older production methods.

Inferior Production Methods Lead to Losses

Let us assume that our marginal enterprise clings to old pro-

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duction methods. Then it faces a loss, not only because of the declining prices of its product, but also because of rising labor costs. Competing modernized enterprises, earning profits and expanding production, bid up the price of labor. They work with higher labor productivity. Also, the machine tool industries expand and attract additional labor. In order to hold its work force, our enterprise must raise wages and thus bear higher labor costs.

Comparison of costs may now lead to the following conclusions: With the interest rate at 6 per cent it was definitely profitable to continue production with the old method requiring less capital and carrying lower interest charges. With the interest rate at 4 per cent, product prices and labor costs being the same, it was profitable to resort to the physically superior method requiring larger capital outlay. But with product prices declining and labor costs rising on account of the expanding production by modernized competitors, the 4 per cent rate of interest no longer warrants the retooling. Our marginal enterprise will have to wait until the rate declines even further, let us say to 3 per cent, or until a production method becomes available that yields even greater physical productivity with the same capital outlay. Only under these special assumptions can our businessman hope to compete again with his alert competitors. Most likely he will have lost irrevocably his position as a marginal enterprise. He will have to cease production or switch to other fields of enterprise.

So far, our analysis has dealt with the effects of capital accumulation on the introduction of new production methods requiring more capital. We assumed an unhampered market with capital accumulation and declining interest rates. Let us now introduce the case of rising labor costs as a result of union coercion.

A Labor Union Coerces a Single Enterprise

Our marginal enterprise is threatened by a strike. Investment capital is available at the rate of 6 per cent. At this rate and with unchanged labor costs it would be profitable to continue to produce with the old production method. Now union pressure increases labor costs. Is it now profitable to embark upon the expensive retooling entailing a saving in labor costs, or is it wiser to cling to the old method burdened by much larger labor costs?

The answer to this question obviously depends on the extent of the wage increase enforced by the

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labor union. It may be that the physically more productive method requiring larger capital outlay with some savings in labor costs is less costly than the old method burdened by the new labor costs. Or it may be that the old method is still less costly than the new method. But either answer is utterly insignificant for our enterprise, for each alternative entails higher production costs which cannot be passed on in the form of higher product prices. Both methods, therefore, lead to losses for our marginal enterprise and its ultimate bankruptcy.

This conclusion clearly demonstrates that the union clamor for higher labor costs does not lead to "automation," but merely confronts the entrepreneur with the choice of two losses: through the old method burdened with higher union wages, or through the new method burdened with higher capital costs.

A Whole Industry Is Coerced

In the foregoing case, our enterprise suffered losses on account of union coercion; there is no refuge in automation. Let us now assume that, instead of our marginal enterprise being threatened by a local union, the whole industry suffers from the grip of a nation-wide labor organization. In this case, as in that of a single enterprise, the given alternatives are the following: increased costs through higher union wages or increased costs through larger capital outlay with some savings in wages. Again the question of which one of the evils is the smaller depends on the specific case. But no enterprise can be expected to embark upon expensive retooling merely to suffer the smaller loss.

However, this case of an industry whose labor costs are increased by an industry-wide union organization differs from that of a single enterprise in an important respect. The higher production costs lead to industry-wide losses which in turn force a restriction of production. The curtailment in product supply then leads to higher product prices.

The higher product prices growing out of production restrictions may in fact permit the surviving producers to choose one of the two costly alternatives. It is conceivable that expensive retooling with higher capital costs may be the less costly alternative and may even be profitable on account of the higher product prices.

There is still another factor standing in the way of conversion to production methods requiring more capital. The surviving enterprises that prefer the expensive retooling exert an influence on the capital market. The rate of inter-

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est tends to rise. In other words, investment capital may no longer be available at 6 per cent, but may rise to, let us say, 7 per cent. This would reduce the likelihood of large capital expenditures for retooling.

"Automation" as Maladjustment

But, in some cases, the unions may indeed force the surviving producers to undertake the conversion. The conditions are the following: industry-wide union coercion, restriction of production, higher product prices, and the barring of all union-free newcomers to the field. It is conceivable, for instance, that General Motors, Chrysler, and Ford have been forced by the coercion of the automobile workers unions to resort to some "automation" that otherwise might not have been undertaken.

This is by no means a laudable achievement. The capital needed for the costly retooling is withdrawn from other more productive uses. Other industries that profitably converted to production methods requiring more capital now find themselves short of capital. They have to be content with old inferior methods and must wait until additional capital is accumulated through profits and savings. In the meantime, consumers must pay higher prices than they would have paid if the retooling could have been achieved in some way.

In other words, the "automation" brought about by union coercion constitutes a maladjustment of "automation," that is, a diversion of funds from more productive to less productive employments. On balance, it constitutes a decrease in productivity, lower wages, and lower standards of living.

Higher Productivity through "Shortening Inventions"

Production improvements in general require larger capital outlays. Capital must be available at a rate of interest that permits the introduction of methods of production requiring additional capital. This condition stresses the importance of capital accumulation through profits and savings. It also points at the disastrous effects of confiscatory taxation and wasteful union practices.

I used the words "in general" because there is an important exception to the rule. Once in a great while creative human genius brings forth what Böhm-Bawerk called "shortening inventions."[1] They are inventions that are physically more productive *without requiring additional capital outlays.*

1. Eugen von Böhm-Bawerk, *Further Essays on Capital and Interest*, in process of publication by Libertarian Press, South Holland, Illinois.

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For instance, a machine is invented that is more productive although it is no more expensive, or even less expensive, than the old machine in use. Or, a new material is invented with comparable qualities but cheaper than the material in use. In this case, all producers in the field will immediately employ the invention without having to wait for new capital to be accumulated. It even may free some capital for various other purposes.

As we cannot depend on creative genius continuously to improve our production methods through "shortening inventions," we seem bound to rely on the slow and painful process of saving. For this reason we must defend the free enterprise system from all interventionist attacks on savings and, especially, from attempts at capital consumption by the labor unions.

• • •

WHAT ARE WE *Guaranteed?*

GREY LESLIE

THERE IS NOT a single word in our revered Constitution, nor a word in our immortal Declaration of Independence that guarantees any man or any group any *results*. These great instruments of government speak entirely in terms of *opportunity*.

The job of organized government is to keep the road open and the ladder up and steady.

It is our job, as individuals and citizens, to take that road and to climb that ladder.

No government, however beneficent its edicts may appear, can provide a substitute for individual effort and application.

We need to be reminded, again and again, that we cannot legislate ourselves into the millennium.

We cannot organize into utopia.

Mr. Leslie is a free-lance reviewer and journalist from Washington, D. C.

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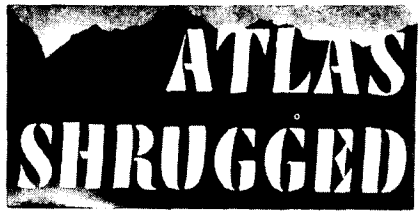
A REVIEWER'S NOTEBOOK

John Chamberlain



AYN RAND'S *Atlas Shrugged* (Random House, 1,168 pp. $6.95) is bound to be a best seller, not because it is Tolstoyan fiction in the round (it isn't), but because it deals with the most vital philosophical and economic issues of our times in the form of a wildly exciting parable. Here is the work of a supreme teacher.

From the point of view of economics the book is magnificent. Passage after passage cries aloud for inclusion in an anthology of libertarian economic readings. There is steel man Hank Rearden's justification for his own life as a maker of high-grade alloys, for instance. It comes as a dramatic outburst in a courtroom scene when the government cracks down on Rearden for disobeying a high-handed "directive," but quite apart from the novel's plot requirements it stands as a proud statement of the enterpriser's place in a society which works by the Golden Rule.

"I work for nothing but my own profit," says Mr. Rearden, ".... which I make by selling a product they need to men who are able and willing to buy it. I do not produce it for their benefit at the expense of mine, and they do not buy it for my benefit at the expense of theirs; I do not sacrifice my interests to them nor do they sacrifice theirs to me; we deal as equals by mutual consent to mutual advantage – and I am proud of every penny that I have earned in this manner.... I have made my money by my own effort, in free exchange and through the voluntary consent of every man I dealt with – the voluntary consent of those who employed me when I started, the voluntary consent of those who work for me now, the voluntary consent of those who buy my product.... Do I wish to pay my workers more than their services are worth to me? I do not. Do I wish to sell my product for less than my customers are willing to pay me? I do not.... I am earning my own living as every honest man must. I refuse to accept as guilt the fact of my own existence and the fact that I must work in order to support it. I refuse to accept as guilt the fact that I am able to do it and to do it well. I refuse to accept as guilt the fact that I am able to do it better than

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most people – the fact that my work is of greater value than the work of my neighbors and that more men are willing to pay me. I refuse to apologize for my ability – I refuse to apologize for my success – I refuse to apologize for my money.... I could say to you that.... when you violate the rights of one man you have violated the rights of all, and a public of rightless creatures is doomed to destruction...."

Or take the long speech on money, by Francisco d'Anconia, a talented copper magnate, for another example:

"So you think money is the root of all evil?" asks d'Anconia of a group of skeptics on a ballroom floor. "Have you ever asked what is the root of money? Money is a tool of exchange, which can't exist unless there are goods produced and men able to produce them. Money is the material shape of the principle that men who wish to deal with one another must deal by trade and give value for value. Money is not the tool of the moochers who claim your product by tears, or of the looters, who take it from you by force. Money is made possible only by the men who produce. Is this what you consider evil?

"When you accept money in payment for your effort, you do so only on the conviction that you will exchange it for the product of the effort of others.... Your wallet is your statement of hope that somewhere in the world around you there are men who will not default on the moral principle which is the root of money. Is this what you consider evil?

".... Wealth is the product of man's capacity to think. Then is money made by the man who invents a motor at the expense of those who did not invent it? Is money made by the intelligent at the expense of the fools? By the able at the expense of the incompetent? By the ambitious at the expense of the lazy? Money is *made* – before it can be looted or mooched – made by the effort of every honest man, each to the extent of his ability.... Money rests on the axiom that every man is the owner of his mind and his effort.... Money demands that you sell, not your weakness to men's stupidity, but your talent to their reason; it demands that you buy, not the shoddiest they offer, but the best that your money can find. And when men live by trade – with reason, not force as their final arbiter – it is the best product that wins, the best performance, the man of best judgment and highest ability .... This is the code of existence whose tool and symbol is money. Is this what you consider evil?"

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Francisco d'Anconia has a lot more to say on the subject of money, of the gold standard versus the gun standard, and of the evil that eats into society when money is no longer respected. All of it should be included in our hypothetical anthology. And there are literally hundreds of other passages in Miss Rand's novel that make far better economics than the stuff that is handed to students in the average textbook.

If Miss Rand's novel offers a first-rate quarrying ground for economic wisdom, however, it does not follow that it will be as effective as it might have been if the author had made voluntarism, and not an enlightened selfishness, her political and philosophical touchstone. A good Christian, or even a pagan who is well-endowed with the gift of sympathy, must be repelled a bit by Miss Rand's dogmatic ethical hardness. When her John Galt – an inventor who persuades the creative men of his era to go on strike against governmental looters and pressure-group moochers – argues that it is wrong to help a man on the ground of his suffering as such, he presumes too much. How is Mr. Galt to know that virtue doesn't lie buried, perhaps fathoms deep, under the surface of a stricken human being's suffering? In helping the sufferer, the Christian takes a chance that the man, even if he seems a practically hopeless case, can be redeemed. The test which Mr. Galt should have applied is quite another than the one he advocates; it should have been stated: "It is wrong to help a man on the ground of his suffering as such, to accept his faults, his need, as a claim, *if the aid is to be paid by force out of other people's money.*" Government is the wrong organ in which to vest the practice of charity for the simple reason that a government must seize someone's substance – i.e., steal it – before it can have anything to give away. Pleas that government charity can be justified by the general welfare clause of the Constitution involve a logical *non sequitur*. For charity always goes to particular persons, not to the generality.

Miss Rand believes in the creative intelligence – and the passion with which she defends it might be taken to be her religion. I have nothing against this attitude, for it leaves the way open to speculation on what may exist behind, beyond, or ahead of purely human intelligence. If everyone lived by Miss Rand's principles, the world would be a far better – and a far kinder – place than it is today. But principles must be stated fairly if one is to have any hope of making them prevail.

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Miss Rand does not always allow her characters to state their working rules fairly. There is her banker, Midas Mulligan, for example. Midas has a sound – *and a human* – view of his calling: it is to give blood transfusions to plants which are capable of survival and growth. In Mulligan's very intelligent opinion, to give money for a blood transfusion to an organism that is incapable of absorbing it is to steal the life from a plant which might have made good use of it.

Now, that is a rationale for sound moneylending that is as humane as it is just, as kindly as it is pragmatically hardheaded. But Mulligan deliberately obscures his own tender concern for living protoplasm by accepting the nickname of Midas as a defiant plume to wear in a contemptuously tilted cap. The nickname is, of course, grotesquely inappropriate. When King Midas of old touched anything, it turned to unsentient metal. Mulligan, on the other hand, has a faculty for changing unsentient metal into glorious growth. He should have called himself Burbank Mulligan. But simply because he refuses to fight a false image of himself, the looters are able to play upon the misguided emotions of the moochers to do Mulligan in.

Ayn Rand is eternally right in arguing the indissoluble connections between capitalism and freedom in general. But capitalism still has a job to do to persuade people that it is the only economic system which can keep the world from becoming the grisly plaything of thugs. Men who accept such nicknames as Midas without protest can hardly be good agents of persuasion. Mulligan, of course, adopts the name of Midas in a spirit of sardonic irony. But irony, as every editor must know, hits only about one target in ten.

Despite its pedagogical lapses, however, *Atlas Shrugged* should make converts to the cause of freedom by the score. The novel is so deftly plotted, so excitingly paced, and so universal in its hero-villain intensity, that it will carry its message to thousands who would never be caught dead reading a textbook – or even a difficult article – on economics. Even libertarians who ordinarily despise fiction will want to read *Atlas Shrugged* for the insights that tumble out of the mouths of its *dramatis personae* on virtually every page. • • •

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Prepared by VERNELIA A. CRAWFORD of the Foundation staff

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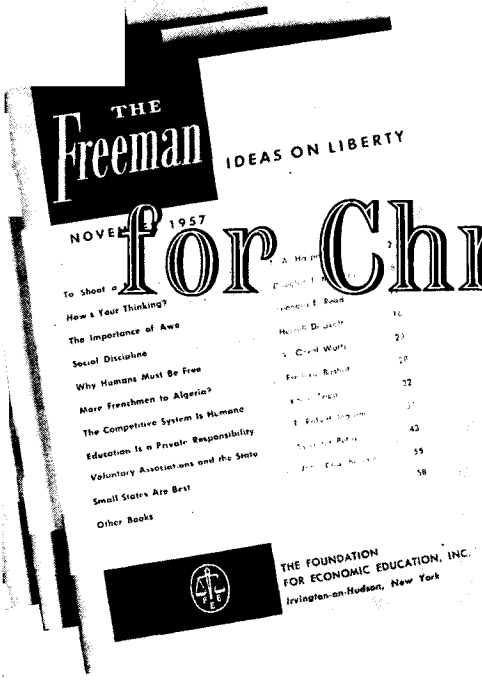

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